



SUGAR LAND DEVELOPMENT CORPORATION

AGENDA REQUEST

AGENDA OF:	12-03-13	AGENDA REQUEST NO:	III-A
INITIATED BY:	NELDA MCGEE, EXECUTIVE SECRETARY	RESPONSIBLE DEPARTMENT:	CITY SECRETARY
PRESENTED BY:	GLENDA GUNDERMANN, CITY SECRETARY	DIRECTOR:	GLENDA GUNDERMANN, CITY SECRETARY <i>GG</i>
		ADDITIONAL DIRECTOR (S):	N/A
SUBJECT / PROCEEDING:	MINUTES SUGAR LAND DEVELOPMENT CORPORATION MEETING OCTOBER 01, 2013 APPROVE MINUTES		
EXHIBITS:	MINUTES SUGAR LAND DEVELOPMENT CORPORATION MEETING OCTOBER 01, 2013		
CLEARANCES		APPROVAL	
LEGAL:	N/A	DIRECTOR:	REGINA MORALES, <i>RM</i> ECONOMIC DEVELOPMENT
PURCHASING:	N/A	EXECUTIVE DIRECTOR:	N/A
BUDGET:	N/A	ASSISTANT CITY MANAGER:	N/A
BUDGET			
EXPENDITURE REQUIRED: \$		N/A	
CURRENT BUDGET: \$		N/A	
ADDITIONAL FUNDING: \$		N/A	
RECOMMENDED ACTION			
Approve minutes of the Sugar Land Development Corporation Meeting October 01, 2013			
EXHIBITS			

STATE OF TEXAS §
COUNTY OF FORT BEND §
CITY OF SUGAR LAND §

**CITY OF SUGAR LAND
SUGAR LAND DEVELOPMENT CORPORATION MEETING
OCTOBER 01, 2103**

REGULAR MEETING

The Sugar Land Development Corporation convened in regular meeting, open to the public, in the Cane Room 161 of Sugar Land City Hall on October 01, 2013 at 4:00 o'clock P.M. and the roll was called of the members to wit:

Amy Mitchell, President
Himesh Gandhi, Vice President
Harish Jajoo, Director
Steve Porter, Director
James A. Thompson, Director
Bridget Yeung, Director
Joe Zimmerman, Director

QUORUM PRESENT

All of said members were present, with the exception of Director Mitchell, Director Porter, and Director Zimmerman, who were absent.

Also present were:
Allen Bogard, General Manager
Karen Daly, Assistant City Manager
Mary Ann Powell, City Attorney
Regina Morales, Director of Economic Development
Jennifer Brown, Budget and Research Director
Nelda McGee, Executive Secretary and
A Number of Staff and Visitors

CONVENE MEETING

Vice President Gandhi convened the session, open to the public, to order at 4:00 o'clock P.M.

MINUTES

Vice President Gandhi introduced consideration on approval of the minutes of the Sugar Land Development Corporation meeting September 03, 2013.

Following a full and complete discussion, *Director Thompson*, seconded by *Director Jajoo*, made a motion to approve the minutes of the Sugar Land Development Corporation Meeting held on September 03, 2013. The motion carried unanimously.

FUNDING RESOLUTION

Vice President Gandhi introduced consideration on **SUGAR LAND DEVELOPMENT CORPORATION RESOLUTION NO. 2013-10-06**, AUTHORIZING THE ISSUANCE OF SUGAR LAND DEVELOPMENT CORPORATION SALES TAX REVENUE BONDS, SERIES 2013; PRESCRIBING THE TERMS AND CONDITIONS OF SAID BONDS; PROVIDING FOR THE SECURITY FOR AND PAYMENT OF SAID BONDS; AWARDING THE SALE THEREOF; AND CONTAINING OTHER PROVISIONS RELATING TO THE SUBJECT.

Ms. Jennifer Brown, Director of Budget and Research, stated the resolution provides funds for design of the performing arts center. Staff planned on \$6.6 million for construction and funding for the issuance costs and debt service reserve associated with the bond issue. Bond ratings were affirmed on September 16, 2013, by Moody's (Aa3) and Standard and Poor's (A+). *Ms. Brown* stated the federal government shutdown did not adversely affect the bond issuance: six bidders were registered all six bids were received by 1:00 p.m. *Ms. Brown* introduced Mr. Joe Morrow, Senior Vice President, and Ms. Christine Crotwell, Assistant Vice President, First Southwest, who would present results of the bond issuance. Noting that the City received good interest rates on the bonds; \$15,000.00 had been anticipated for debt service reserve and will be reallocated to the construction fund stating that the annual average debt service is lower than projected.

Mr. Joe Morrow, Senior Vice President, First Southwest, reviewed Sugar Land Development Corporation Pricing Book for Sales Tax Revenue Bonds, Series 2013, dated October 01, 2013. Tab A, a graph of historical interest rates for revenue bonds issued over the past 10 years, gives an indication of market direction. The market rallied after Labor Day, and interest rates began to go down.

Tab B lists the six bids received for the 25-year bonds. The winning bid was from Robert W. Baird and Company, with an interest rate of 4.13 percent, which is less than the rates anticipated by the consultants at the time of the Preliminary Official Statement (POS), September 24, 2013. *Mr. Morrow* explained that when the POS printed, the consultants visited with their trading desk to review where they thought rates were going to be and make final adjustments to the principal amortization schedule; at that time, the interest rate was coming in above 4.5 percent. The consultants were very pleased when the winning bid came in at 4.13 percent. *Mr. Morrow* explained that the 4.13 percent rate is the true interest cost, which represents the present value back from 25 years out. Overall, the Corporation received very low cost financing, about 50 basis points below what was anticipated at the market rate a little over a week ago.

Tab C provides the final numbers for the bond debt service. Annual debt service is approximately \$460,000.00, about \$15,000.00 less than expected.

Tab D rating reports show the basis behind the credit analysis. The rating companies understand the plan of finance going forward and have both rated the bonds with that in mind. Given the diversification of the sales tax base, the Corporation has a very strong rating.

FUNDING RESOLUTION (CONTINUED)

Director Gandhi asked what “somewhat weak legals” meant. **Mr. Morrow** explained that it refers to additional bond tests and is seen in virtually every report. The municipal bond market allows issuance of additional debt at 1.25 times coverage; the ratings companies want 1.5 times coverage or higher. They refer to the 1.25 times coverage as a “weak legal covenant,” but it is the market standard.

Following a full and complete discussion, **Director Jajoo**, seconded by **Director Thompson**, made a motion to approve Sugar Land Development Corporation Funding Resolution No. 2013-10-06. The motion carried unanimously.

ORIENTATION

Vice President Gandhi introduced review of and discussion on the role Board members’ in economic development processes and objectives, use of sales tax funds, and projects funded by Sugar Land Development Corporation.

Ms., Regina Morales, Director of Economic Development stated the objectives of orientation are to familiarize the Board with:

- Economic Development
- History of Economic Development Sales Tax
- Purpose of SLDC
- Duties & Responsibilities
- Budget Process
- Permissible Type A Projects

Economic Development

Economic development is the process of creating wealth through the mobilization of human, financial, capital, physical and natural resources to generate marketable goods and service. The International Economic Development Council defines the economic developer’s role as “to influence the process for the benefit of the community through expanding job opportunities and tax base.”

The economic development process infuses new dollars into a local economy through primary employers. Primary employers are companies whose products or services are used in statewide, national, or international markets. Primary employers create primary jobs:

- Primary jobs are created by manufacturing, professional services, distribution/warehouse, service industry, etc.
 - Primary jobs produce or sell their services on a regional, state, national or international basis.
- Non-primary jobs are jobs created in the local area and are the result of a certain level of economic development
 - Local grocery store, service station or restaurant.
- Primary jobs are the foundation of local economic development

ORIENTATION (CONTINUED)

- Retail expansion is the product of economic development, not the cause of it
- Local governments “profit” from economic growth and development
 - Staff analyzes on a daily basis for future ad valorem, sales tax, and HOT tax revenues to the City

Ms. Morales reviewed how the flow of money occurs using an example from the Texas Economic Development Corporation of one-thousand primary jobs with an average pay of \$45,000.00:

- Significant Economic Impact
 - More than \$86 million in community payrolls
 - Money to support 2,100 households
 - Generates \$8.5 million in local government taxes
 - Creates more than \$130 million in taxable retail sales
 - Causes more than \$550 million in economic transactions
- Creates another 1,700 jobs
 - 180 retail jobs
 - 180 health care jobs
 - 250 wholesale jobs and transportation jobs
 - 150 finance and professional jobs
 - 170 restaurant and hotel jobs
 - 400 manufacturing jobs
 - More than 300 jobs in construction and other sectors

To illustrate job creation disparity, **Ms. Morales** talked about various employment multipliers:

- A fast food job creates 1/10 additional job
- A high-paying manufacturing job creates 2+ spin-off jobs and has an economic impact of over \$370,000 annually
- A job at an advanced technology company creates 7 additional jobs
- One wealthy retiree creates 3 additional jobs

In addition to Primary Employers, local economic development activity can also be created by tourism, which generates overnight stays and supports retail activity; and by transfer payments, which is the transfer of goods between entities and the flow that occurs at local/national/international levels. Primary employers drive the local economy by supporting local suppliers so local services and retailers can thrive.

Ms. Morales reviewed best practices of successful economic development organizations:

- Develop an Action Plan
 - Include strategic planning
 - Define missions, goals, and priorities
 - Identify assets and resources
 - Develop and follow an annual work plan

ORIENTATION (CONTINUED)

- Build and Sustain Collaborative Relationships
 - Inclusive in the way they implement action plans within the community
 - Build bridges and develop formal and informal collaboration with
 - Workforce Boards
 - Universities and Community Colleges
 - Local Businesses
 - Local Government
 - Regional Organizations
 - State Legislature
- Never stop educating elected officials, policymakers, and other stakeholders about what economic develop is and is not

The best economic development boards and officials understand the connections between economic development and other city policies; the regulatory environment; local economic development stakeholders and partners; and the needs of their business community.

To meet the City goal of a strong, local economy, the following Mission Statement was created for Sugar Land Economic Development:

To facilitate, through use of appropriate resources, the creation of a sustainable business environment that promotes a consistent, quality economy that enhances the standard of living for our residents, and to provide the necessary financial resources for the City of Sugar Land through an expanded and diversified tax base.

Sugar Land Economic Development Strategies are included in the Five-Year Economic Development Strategic Plan:

- Primary Industry Program
 - Competitive Positioning
 - Enhancing Competitive Factors – Incentive Recommendations
 - Tools
 - Business Attraction Marketing: Financial Services, Health Care, Company Headquarters, Pharmaceuticals, Research and Development, Medical Instruments, Energy, Research
 - Sales Program for Winning Projects
- Business Retention Program
 - Cultivating Existing Industry Growth (Noble Drilling)
 - Enhancing Competitive Factors – Incentive Recommendations
 - Health Industry Sector Strategy (Retention)
- Tourism Program
 - Brand the Sugar Land Visitor Experience
 - Comprehensive Marketing Program
 - Hotel and Meeting Target Marketing
 - Cultivating Tourism Industry Stakeholders

ORIENTATION (CONTINUED)

- Retail Program (Support Role)
 - Information & Referral
 - Community Marketing
 - Retail Attraction Support
 - Commercial Redevelopment Support
- Compliance Program
 - Compliance & Monitoring
 - Property Tax Assessor/Collector
 - Agreement Compliance Management Program
- Corporation Administration
 - Type A/B Corporation Administration
 - Local Government Corporation
 - TIRZ #1 Administration
 - Economic Development Committee
 - Agreement Development/Negotiations
- Strategic Projects
 - Performing Arts Center
 - Possible Convention Center
 - Citywide Marketing Program
 - Implement Tourism Structure
 - Retail Study

Having the Economic Development Department housed within the City allows the department to work closely with other departments in creating strategic projects and public/private partnerships. The economic development structure allows the City to leverage funding between Sugar Land Development Corporation (Type A), Sugar Land 4B (Type B), and Hotel Occupancy Taxes.

One-half cent of local sales tax limit funds the Corporations: one-fourth cent goes to Type A (SLDC) and one-fourth cent to Type B (SL4B). Type A sales tax is used to fund various economic development activities. The Development Corporation Act of 1979 established these funds to allow small cities to compete with larger, better-funded cities for projects; the program expanded because it was so successful. Today there are 697 Corporations in Texas:

- 114 Cities with Type A and Type B Corporations (228 Corporations)
- 108 Type A Cities
- 361 Type B Cities
- 583 Total Cities (697 Corporations)

History of Economic Development Sales Tax

Ms. Morales reviewed an historical timeline of the economic development sales tax in Texas:

ORIENTATION (CONTINUED)

1979	Texas Legislature passes “The Development Corporation Act of 1979”
1989	Legislature adds Section 4A and allowed cities to dedicate sales tax to fund corporations
1991	Legislature adds Section 4B (but limits it to cities located in only four counties)
1993	Legislature expands 4B to all communities
1997	Corporations must report annually to Comptroller by February 1
1997	4A corporations Authorized to undertake 4B projects with voter approval
1999	Legislature expands allowable projects to include infrastructure, job creation and retention, job training, and educational facilities
2001	Legislature expands allowable projects to include research and development facilities and passes training requirements for 4A/4B corporation and city officials
2003	Legislature removes educational facilities, learning centers and municipal buildings from definition of project; adds “primary jobs” language that limits retail incentives to infrastructure, job training, and promotional expenditures; and sets forth contract requirements that must be met before incentives may be provided to a business
2005	Restrictions on retail incentives removed for certain communities; certain sewer utilities, site improvements, and military related projects added as eligible projects; call centers added to definition of primary jobs
2007	Light rail, commuter rail, or motor buses added to eligible projects; 4A / 4B Corporations will be referred to as “Type A” and “Type B” Corporations
2009	Economic Development sales tax statute re-codified into Local Government Code, effective April 1, 2009
2009 (cont.)	Restricted Geographic Areas – Type A: <ul style="list-style-type: none"> • HB 3854 – “Projects” can include certain hurricane recovery projects • HB3072 – Cities with less than 20,000 can convey real property to 4A/4B corporations without complying with state notice and bid requirements
2009 (cont.)	All Type A Corporations (Broad Application): <ul style="list-style-type: none"> • SB 2052 – Adds rail ports, rail switching facilities, marine ports, and inland ports to definition of project
2013	Port Arthur Carve Out: Authorizes economic development sales tax funds to be spent on <ul style="list-style-type: none"> • HB 1966: infrastructure - streets, rail, water, wastewater, electric utilities, gas utilities, drainage, site improvements, telecommunications, and facilities designed to remediate, mitigate, or control erosion (Sunset date September 1, 2017) • HB 1967: certain job-related life skills and job training programs for unemployed persons. • HB 2473: development or construction of housing facilities on or adjacent to the campus of a public state college. (Sunset date September 1, 2017)

ORIENTATION (CONTINUED)

2013 (cont.)	<p><u>HB 3390</u>: Extends expiration date of Economic Development Act to December 31, 2022</p> <ul style="list-style-type: none"> • Expands types of properties eligible for a value limitation to include “Texas priority projects,” as defined as qualified investment exceeding \$1 billion • Specifies property tax limitation agreements to 10 years (was 8) options for start date • Loosens job & wage requirements for agreements after January 1, 2013 • Repeals Subchapter D, which governs school tax credits • Requires State Auditor to review 3 major limitation agreements annually • Becomes effective January 1, 2014
2013 (cont.)	<p><u>HB 800</u>: Creates R&D tax credit</p> <ul style="list-style-type: none"> • Allows business to deduct certain R&D expenditures from either sales or franchise tax • Tax credit worth 5%; increases to 6.25% for companies that partner with college • Limits total amount of credit for any one company to 50% of franchise tax due & Authorized carry forward of unused credits for up to 20 years
2013 (cont.)	<p><u>HB 1223</u></p> <ul style="list-style-type: none"> • Creates new state sales tax exemption for certain property used in qualified data centers • Authorized tax exemptions for 10 years if capital investment is at least \$200 million but less than \$250 million & 15 years for investments over \$250 million. • Prohibits companies from using both new data center incentives & Chapter 313 tax limitations
2013 (cont.)	<p><u>SB 1390</u>: Directs state auditor to conduct an audit of Texas Enterprise Fund</p>
2013 (cont.)	<p><u>SB 1548</u>: amends definition of “qualified employee” for the purposes of receiving enterprise zone incentives</p>
2013 (cont.)	<p><u>HB 1296</u>: directs Texas Higher Education Coordination Board and Texas Workforce Commission to prepare 3-year projections on workforce needs and educational attainment levels of existing workforce</p>
2013 (cont.)	<p><u>HB 2478</u>: requires Texas Workforce Commission to gather and study information relating to existing and projected shortages in high-wage, high-demand occupations in this state</p>

Purpose of Sugar Land Development Corporation

Ms. Morales explained the purpose of the Sugar Land Development Corporations is to:

- Promote, assist, and enhance economic development activities in the City of Sugar Land
- Promote the retention, expansion, and development of Sugar Land targeted primary industries that create or retain primary jobs as defined by the Strategic Plan

ORIENTATION (CONTINUED)

The Corporation was originally created in 1993 under Section 4A of the Development Corporation Act of 1979. The seven member Board consists of the members of City Council and the Mayor.

Duties and Responsibilities

The powers and duties of the Corporation include:

- Power to expend tax proceeds
- Powers of a non-profit corporation
- Status as a non-stock corporation
- Financial transaction powers
- Exemption from federal, state, and local taxation
- Duty to comply with Open Meetings and Public Information Act

Budget Process

The Sugar Land Development Corporation oversees funding for identified projects in the Economic Development Plan, in accordance with policies and directives established by City Council; and follows guidelines for using tax funds to achieve objectives, including any limitations on the use of funds. The Economic Development Committee (EDC) serves as the Budget Committee; the budget is reviewed by the SLDC Board of Directors and filed with City Council for consideration and approval.

Permissible Type A Projects

Type A Projects must create or retain Primary Jobs, permanent positions with companies whose product is consumed substantially outside of the region. Type A funding may provide land, buildings, equipment, facilities, expenditures, targeted infrastructure and improvements necessary for creation of primary jobs. Defined project types include:

- Manufacturing and Industrial facilities
- Research and Development facilities
- Military facilities
- Recycling facilities
- Distribution centers
- Small warehouse facilities
- Primary job training facilities for use by higher education
- Regional or national corporate headquarters facilities

Some allowable Type A projects are not required to create or retain primary jobs:

- Job training classes
- Certain infrastructure improvements that promote or develop new or expanded business enterprises
- Career centers
- Commuter rail, light rail, or motor buses

ORIENTATION (CONTINUED)

- Business airports
- Port-related facilities

The Corporation may issue bonds, notes, and other contractual obligations to fund its projects. Sales tax proceeds received by the Corporation may be used to pay the principal and interest on the bonds and any other costs related to the bonds.

Type A and B corporations are allowed to expend sales tax proceeds for promotional purposes with the following limitation:

- Attorney General Opinion GA-86 (2003)
 - Promotional expenditures must advertise or publicize the city for the purpose of developing new and expanded business enterprise
 - Cap of 10 percent of total revenues is an annual limitation

Director Yeung asked what the average annual salary was for Sugar Land. **Ms. Morales** responded that typically a benchmark of \$65,000.00 or greater is used as a minimum threshold for incentives; staff will do the research on average annual salary and report back.

Vice President Gandhi asked if Type B cities are preferable to Type A or Type A and B cities. **Ms. Morales** responded that it depends on how the City wants to utilize the economic development corporation. Type B corporations support quality of life projects and parks development; and could hold an election to expend funds on Type A projects. For smaller cities, that is a greater need.

ADJOURN

There, being no further business to come before the Corporation, the meeting was adjourned, time at 5:38 o'clock P.M.

Amy Mitchell, President

(SEAL)